



Washington Presentation
of

**The Development Assistance
Committee
Peer Review of
Development Cooperation Policies
and Programs
of the United States**

December 4, 2002

❖ Organized by the Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland, College Park, under USAID Contract No. EDG-O-00-02-00037-00.

**The Development Assistance Committee Peer Review of
Policies and Programs of the United States**

*Washington Presentation
December 4, 2002*

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**The Development Assistance Committee Peer Review of
Development Cooperation Policies and Programs of the United States**
*Washington Presentation
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The initial findings of the Development Assistance Committee (DAC) Peer Review of the development cooperation policies and programs of the US were released on October 22, 2002. The DAC Peer Review, which occurs every four years, is a careful examination and evaluation of countries' development procedures and policies by an international panel of peers from the Organization for Economic Cooperation and Development (OECD). For the 2002 Peer Review, delegations from France and Sweden were designated as examiners and conducted an in-depth evaluation of US development policies and programs through both on-site and off-site review processes.

The Washington Presentation of the October 22, 2002 Peer Review was held on December 4, 2002. It allowed members of the DAC to present their findings with respect to US development policies to members of the development community in the United States. Included on the panel for the Washington Presentation were representatives from the DAC – Mr. Jean-Claude Faure, Mr. Ambroise Fayolle, and Ms. Pernilla Joseffson, Dr. James Hradsky. The Assistant Administrator for Policy and Program Coordination (PPC) at the US Agency for International Development (USAID), Dr. Patrick Cronin, was the official USAID representative at the Washington Presentation. The moderator for the event was Dr. Steve Radelet of the Center for Global Development (CGD), while Dr. Nancy Birdsall, founder and president of the CGD, gave the welcoming address.

Two key themes addressed by the panel and in the subsequent question and answers session were 1) the need for increased domestic and international coherence in US development policy and 2) the effect of the Millennium Challenge Account (MCA) on economic development and the need for results-based management in the implementation of aid projects.

In the review process, the US was commended for its major contribution to sustainable development, its transparency, and its continued commitment to less developed countries. In 2001 the US committed \$11.4 billion in Official Development Assistance (ODA), which equals one-third of development assistance in the world. The advent of the MCA by the US helps lead the way to as much as a 30% increase in ODA by 2006.

Eighty-six individuals representing various print media, embassies, NGO's, development banks, consulting firms, and universities attended the Presentation:

- Abt Associates
- Academy for Educational Development
- African Development Bank
- American Association of State Colleges and Universities
- American University
- Asian Development Bank
- University Cooperation in development
- Basic Education Coalition
- BNA Daily Report for Executives
- Bread for the World
- Business Alliance for International Economic Development
- Catholic Relief Services
- Cato Institute
- Center for Global Development
- Development Assistance Committee
- Embassies: Belarus, Belgium, Canada, Finland, Russia, Rwanda, Norway
- Georgetown University
- Inter-American Dialogue
- International Monetary Fund
- Institutional Reform and the Informal Sector
- Japan Bank for International Cooperation
- National Democratic Institute
- Organization for Economic Cooperation and Development (OECD)
- Oxfam America
- Population Action International
- Reuters
- The Aspen Institute
- The Corporate Council on Africa
- Transparency International
- US Department of State
- US Treasury
- United Nations Economic Commission for Africa
- United Nations Development Program (UNDP)
- US Agency for International Development (USAID)
- US Department of Agriculture (USDA)
- World Bank

Participating Organizations

Organization for Economic Cooperation & Development

2001 L Street, NW Ste 650
Washington, DC 20036-4922
Ph: 202-785-6323; Fax: 202-785-0350

USAID

Ronald Reagan Building
1300 Pennsylvania Avenue, N.W.
Washington, D.C. 20523

The IRIS Center

University of Maryland
2105 Morrill Hall
College Park, MD 20742
Ph: 301-405-3110; Fax: 301-405-3020

Center for Global Development

1776 Massachusetts Ave. NW, Ste 301 Washington DC 20036
Ph: 202.416.0700; Fax: 202.416.0750



The Center for Global Development

Invites you to a review and discussion of the OECD's Development Assistance Committee's
Peer Review of United States Development Cooperation

The peer review is designed to assess and improve the individual and collective development co-operation efforts of DAC members. The event will focus on this year's review of the U.S. and will serve as an opportunity for a public discussion of the report.

The report is available at

<http://www.oecd.org/EN/documents/0,,EN-documents-67-2-no-3-no-0,00.html>

Opening Remarks:

Patrick Cronin

Assistant Administrator, Bureau for Policy and Program Coordination, USAID

Panel:

Steven Radelet (Moderator)

Senior Fellow, Center for Global Development

Jean-Claude Faure

*Chair, Development Assistance Committee, Organization for Economic Cooperation and Development
(DAC/OECD)*

Pernilla Josefsson

Sweden's Delegate to the (OECD/DAC)

Ambroise Fayolle

Deputy Director, Ministry of Finance, Paris, France

James Hradsky

Head of Section, Peer Review and Policy Monitoring Division, (OECD/DAC)

Wednesday, December 4, 2002

9:00 AM - Noon

(registration begins at 8:30)

**Peter G. Peterson Conference Center (at the IIE), 1750 Massachusetts Avenue, NW
Washington D.C.**

***RSVP (by Monday, December 2, 2002, 12:00) to Andrea Suh, (301) 405-0117
(andrea@iris.econ.umd.edu).***

Please indicate your name, affiliation, and a day time phone number

Background

USAID Administrator Andrew S. Natsios represented the United States at the quadrennial OECD/DAC Peer Review of U.S. development assistance programs on October 22, 2002. Examiners were Sweden and France. The review was organized around three broad categories: overall framework, policy coherence, and aid management and implementation. Throughout all three sessions, the Millennium Challenge Account (MCA) was a focus of discussion, and received unanimous support and enthusiasm. Particularly singled out were the MCA's focus on the poor, and the dramatic increase in overall ODA levels. There was also significant interest in the development chapter of the President's National Security Strategy. The U.S. emphasized performance-based resource allocation and the need to build capacity for poor countries to implement policy reform and attract private resources.

Under **Overall Framework**, in addition to many questions about the MCA, including country selection criteria, and implementation modalities, DAC members commented about perceived differences on development issues between the US and its friends in Europe. Administrator Natsios explained that there are actually more similarities than differences, and that the "so-called wide gulf" is mostly attributable to misunderstandings, different operational realities, and differences in the use of language, history, and culture. In this context, he emphasized US continued commitment to a multilateral approach and strong belief in partnership, consultations, and the Monterrey Consensus. These comments resonated with many DAC members. There were also discussions on international partnerships, the Global Development Alliance (GDA), total resource flows, and public awareness of US foreign assistance..

The **Policy Coherence** discussion focused on trade, agriculture, and tied aid. Highlighted were the strong linkages between aid and trade, exemplified in Doha and Monterrey and US focus on trade capacity building. Discussing DAC's untying recommendations, examiners observed that while they appreciate the fact that the US is complying with the recommendation, they would like to see more effort in the areas of food aid and freestanding technical assistance. However, there was an acknowledgement that any further action on food aid untying would have to be done through the Food Aid Convention.

Under **Aid Management and Policy**, there was discussion of USAID field operations, country-developed and -owned frameworks such as Poverty Reduction Strategy Papers (PRSPs), and implementation modalities such as Sector-Wide approaches (SWAs) and budget support. Administrator Natsios emphasized US strong support for the PRSP as a concept, and indicated that where country-led, participatory efforts resulted in well-crafted PRSPs, the US is willing to consider aligning its assistance program around such documents, provided there are no compelling foreign policy or national security reasons not to do so. He also indicated strong support for the principles of country ownership, development partnership, and harmonization of donor procedures, including, where appropriate, SWAs. He emphasized, however, that the U.S. rejects the view that SWAs must necessarily be associated with a particular mode of financing, such as program assistance, cash transfers, or budget support.

Program (8:30-12:00)

08:30 - 09:00 Registration
09:00 - 09:05 Nancy Birdsall, Welcoming Remarks
09:05 - 09:20 Patrick Cronin, Opening Remarks
09:20 - 09:30 Jean-Claude Faure, Introduction
09:30 - 09:40 Pernilla Josefsson
09:40 - 09:50 Ambroise Fayolle
09:50 - 10:00 Coffee Break
10:00 - 11:40 Q and As
11:40 - 12:00 Closing Statements

United States Development Cooperation: The DAC Peer Review

**Wednesday, December 4, 2002, 9:00 a.m.
Institute for International Economics**

Welcoming Remarks

Nancy Birdsall, Center for Global Development

Opening Remarks

Patrick Cronin, United States Agency for International Development

Introduction of Review

Jean-Claude Faure, Chair, Development Assistance Committee

Remarks

Pernilla Josefsson, Development Assistance Committee
Ambroise Fayolle, Development Assistance Committee

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Break

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Questions and Answers

Moderator, Steve Radelet, Center for Global Development
Patrick Cronin, United States Agency for International Development
Jean-Claude Faure, Chair, Development Assistance Committee
Pernilla Josefsson, Development Assistance Committee
Ambroise Fayolle, Development Assistance Committee
James Hradsky, Development Assistance Committee

Closing Statements

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You may obtain the full Review of the U.S. Development Cooperation at
<http://www.oecd.org/pdf/M00036000/M00036719.pdf>.

Websites for today's participating organizations

Organization for Economic Co-Operation and Development – www.oecd.org
United States Agency for International Development – www.usaid.gov
Center for Global Development – www.cgdev.org
IRIS, Center for Institutional Reform and the Informal Sector – www.iris.umd.edu

Participant Bios

Nancy Birdsall

Nancy Birdsall is President and Co-Founder of the Center for Global Development, a policy-oriented research institution that opened its doors in Washington, DC in October 2001.

Prior to launching the center, Ms. Birdsall served for three years as Senior Associate and Director of the Economic Reform Project at the Carnegie Endowment for International Peace. Her work at Carnegie focused on issues of globalization and inequality, as well as on the reform of the international financial institutions.

From 1993 to 1998, Ms. Birdsall was Executive Vice-President of the Inter-American Development Bank, the largest of the regional development banks, where she oversaw a \$30 billion public and private loan portfolio. Before joining the Inter-American Development Bank, she spent 14 years in research, policy, and management positions at the World Bank, most recently as Director of the Policy Research Department.

Ms. Birdsall is the author, co-author, or editor of more than a dozen books and monographs, including, most recently, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture*, *Population Matters: Demographic Change, Economic Growth and Poverty in the Developing World*, *Washington Contentious: Economic Policies for Social Equity in Latin America*, and *New Markets, New Opportunities? Economic and Social Mobility in a Changing World*. She has also written more than 75 articles for books and scholarly journals published in English and Spanish. Shorter pieces of her writing have appeared in dozens of U.S. and Latin American newspapers and periodicals.

Ms. Birdsall has been researching and writing on economic development issues for more than 25 years. Her most recent work focuses on the relationship between income distribution and economic growth.

Ms. Birdsall is a member of the Board of Directors of the Population Council. She has chaired the board of the International Center for Research on Women and has also served on the boards of the Social Science Research Council and the Overseas Development Council. She has served on a number of committees and working groups of the National Academy of Sciences.

Ms. Birdsall holds a Ph.D. in economics from Yale University and an M.A. in international relations from the Johns Hopkins School of Advanced International Studies.

Patrick Cronin

Dr. Patrick M. Cronin is the Assistant Administrator for Policy and Program Coordination of the U.S. Agency for International Development. Before his confirmation by the U.S. Senate as an Assistant Administrator, Dr. Cronin was the Director of Research and Studies at the U.S. Institute of Peace, an independent federal agency created by Congress to develop knowledge for managing international conflict. Dr. Cronin is a specialist in both Asia affairs and global U.S. security policy.

Prior to the Institute of Peace, Dr. Cronin was at the National Defense University's Institute for National Strategic Studies. As Deputy Director and Director of Research at the Institute, he directed advanced research efforts of more than 20 senior analysts in support of the Secretary of Defense, the Chairman of the Joint Chief of Staff, and other senior Defense Department officials. He directed long-range strategic studies, as well as the Institute's Asian-Pacific research program. Dr. Cronin served as the founding Executive Editor of then Chairman General Colin Powell's professional journal, *Joint Force Quarterly*. He received the U.S. Army's Civilian Meritorious Service Award and held a commission as an officer in the U.S. Naval Reserve (Intelligence) from 1987 until 2000.

Until June 2001, Dr. Cronin served on the editorial advisor board of the professional academic journals, *International Studies Perspectives* and the *Journal of Korean Studies*. He has also served on the Governing Board of Directors of the U.S. Council on Security and Cooperation in Asia Pacific, and the board of advisors of the Global Beat Syndicate of the Center for War, Peace and the News Media. He is the former associate editor of the journal *Strategic Review*. Dr. Cronin also served as the executive secretary to the U.S. chairman, the Honorable Paul Wolfowitz, of the Trilateral Forum on North Pacific Security. He is a longstanding member of the Institute for International Strategic Studies, London.

Dr. Cronin has lectured and published widely and has conducted regular interviews with major domestic and international media -- television, radio, and print -- including CNN, NBC, NPR, BBC, Reuters, AFP, *Christian Science Monitor*, the *Washington Times*, the *Financial Times*, and many others. His op-eds have appeared, among other places, in the *Washington Post*, the *Los Angeles Times*, the *Christian Science Monitor*, the *Straits Times* (Singapore), and *Newsday*.

For seven years, Dr. Cronin was an adjunct professor at the Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, and he also taught at the University of Virginia. Dr. Cronin holds a M.Phil. and D.Phil. degrees in international relations from the University of Oxford, England.

Jean-Claude Faure

Mr. Faure was elected Chair of the OECD Development Assistance Committee (DAC) on 19 January 1999. In this capacity, he presides over the work of the main OECD body through which donor Member countries endeavour to enhance the efficiency of their concerted drive to achieve sustainable economic and social development.

Mr. Faure is a graduate of the *Institut d'Etudes Politiques* and the *Ecole Nationale d'Administration*. He is married and has four children.

A career civil servant in the French Ministry of Economic Affairs and Finance, Mr. Faure has held several high-ranking posts in government, the latest being that of Principal Private Secretary to the State Secretary with responsibility for Co-operation and the French-speaking World. From 1994 to 1996 he was Principal Adviser to the Global Coalition for Africa in Washington. From 1986 to 1993 he was Director of the Development Directorate in the Ministry of Co-operation and Development after having been Minister-Counsellor for Economic and Financial Affairs in the French Delegation to the United Nations.

Pernilla Josefsson

Ms. Josefsson is the Swedish Delegate to the DAC from the Swedish Ministry for Foreign Affairs. Her responsibilities also include sustainable development, environment and cooperation with non-members. Ms. Josefsson was previously based in Stockholm at the Department for International Development Cooperation in the section responsible for the multilateral development banks.

Ambroise Fayolle

Mr. Fayolle is the Deputy Director of Debt, Development and Emerging Countries, Treasury Department, French Ministry of Economy and Finance. Within the Ministry, he also holds the position of Vice-President of the Paris Club. He is a Member of the Board of several development agencies, including the French Development Agency and the Global Environment Fund. During his tenure in the Treasury Department which began in 1991, he occupied several posts, and was a member of the Brouhns committee, an Alternate Executive Director for France of the IMF in Washington, and a lecturer at the Institut d'Etudes Politiques de Paris.

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Steven Radelet is a Senior Fellow at the Center for Global Development and works on issues related to foreign aid, developing country debt, economic growth, and trade between rich and poor countries. He was Deputy Assistant Secretary of the U.S. Treasury for Africa, the Middle East, and Asia from January 2000 through June 2002. In that role, he had broad responsibilities for US financial relations with the countries in these regions, including debt repayments and rescheduling and programs with the international financial institutions. Dr. Radelet holds a Ph.D. and MPP from Harvard University and a BA from Central Michigan University. He was a faculty member at Harvard from 1990-2000, where he was a Fellow at the Harvard Institute for International Development (HIID), Director of the Institute's Macroeconomics Program, and a Lecturer on Economics and Public Policy. From 1991-95, he was HIID's resident advisor on macroeconomic policy to the Indonesian Ministry of Finance, and from 1986-88 served in a similar capacity with the Ministry of Finance and Trade in The Gambia. He was also a Peace Corps Volunteer in Western Samoa from 1981-83. His research and publications have focused on economic growth, financial crises, and trade policy in developing countries, especially in sub-Saharan Africa and East Asia. He has written numerous articles in economics journals and other publications, and is co-author of a leading undergraduate economics textbook, *Economics of Development*.

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Prior to coming to the OECD, Mr. Hradsky led a 30-year career as development economist and senior manager. Although he initially worked in the United States Peace Corps and the private sector, he obtained the majority of his experience in the U.S. Agency for International Development (USAID), primarily in Africa and Southeast Asia. Member of the U.S. Senior Foreign Service, Mr. Hradsky was responsible for directing both the Mali bilateral and West Africa Regional field missions upon his departure from the Agency.

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*Event Summary***

Participants:

Nancy Birdsall, President, Center for Global Development
Steve Radelet: Senior Fellow, Center for Global Development
Patrick Cronin: Assistant Administrator for Policy and Program Coordination, USAID
Jean-Claude Faure: Chair, Development Assistance Committee
Pernilla Josefsson: Swedish Delegate, the Development Assistance Committee
Ambroise Fayolle: Development Assistance Committee
James Hradsky: Senior Member, OECD Development Co-operation Directorate

Summary:

The initial findings of the Development Assistance Committee (DAC) Peer Review of the development cooperation policies and programs of the US were released on October 22, 2002. The DAC Peer Review, which occurs every four years, is a careful examination and evaluation of countries' development procedures and policies by an international panel of peers from the Organization for Economic Cooperation and Development (OECD). For the 2002 Peer Review, delegations from France and Sweden were designated as examiners and conducted an in-depth evaluation of US development policies and programs through both on-site and off-site review processes.

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Two key themes addressed by the panel and in the subsequent question and answers session were 1) the need for increased domestic and international coherence in US development policy and 2) the effect of the Millennium Challenge Account (MCA) on economic development and the need for results-based management in the implementation of aid projects.

In the review process, the US was commended for its major contribution to sustainable development, its transparency, and its continued commitment to less developed countries.

In 2001 the US committed \$11.4 billion in Official Development Assistance (ODA), which equals one-third of development assistance in the world. The advent of the MCA by the US helps lead the way to as much as a 30% increase in ODA by 2006.

Panelists' speaking points:

Patrick Cronin: USAID

- US development strategy must focus on economic growth as the avenue to poverty reduction. A social services approach alone is not sufficient. More specifically, US should focus on institutional development and reduction of corruption as a means to encourage growth.
- Policy coherence has been both a weakness and strength of US aid policy in the past. The effective communication and coordination of policy with the many agencies and organizations involved in US development work is a major challenge in the present era of development assistance.
- The Millennium Challenge Account (MCA), to be managed by the Millennium Challenge Corporation, will be demand-driven as opposed to donor-driven. It will focus on achieving measurable results of sustainable economic development.
- No set percentage of MCA will go to different geographic areas; funding will go to the countries that meet the criteria set out by the MCA.
- MCA gives the US the opportunity to reassert itself as the leader in foreign assistance effectiveness as well as volume.

Jean-Claude Faure: Development Assistance Committee

- Two keystones since the last DAC Peer Review in 1998: 1) Since 9/11 there is increased commitment on the part of the international development community to strengthening the globalization process as an integral component of national security strategy. 2) The Millennium Challenge Account demonstrates US commitment to poverty reduction. The increased US commitment and the increased funding that has been committed by other countries will provide a projected 20-30% increase in support by the year 2006.
- Three pillars of implementation at national and international levels: 1) good governance in the government, private, and non-profit sectors, 2) coherence and coordination of policy, 3) performance measurement standards for donor practices, implementation, strengthening the Peer Review process.
- Across the globe, countries committed to aid must coordinate or risk redundancy and inefficiency.

Ambroise Fayolle: Development Assistance Committee

- Two key issues that came out of the DAC Peer Review are: 1) the need for the US to build one overarching ODA policy at the national level among the 50 US agencies delivering foreign aid, 2) increased partnership with aid organizations at an international level. For example, creation of selection criteria for MCA recipients should be consistent with international initiatives/goals.
- The MCA represents a departure for the US from their previous way of thinking about development. The sheer magnitude of MCA could make it "first place in

terms of ODA policy.” There is a need, however, to avoid the over-absorption of aid which MCA has the potential of creating.

- The US needs to examine how to focus development in order to bring greater benefit to recipient countries.

Pernilla Josefsson: Development Assistance Committee

- Two issues stand out in the DAC Peer Review: 1) policy coherence and 2) the efficient allocation of aid.
- Will the MCA improve US policy coordination of aid at the domestic level or will it confuse it?
- Congressional earmarks (270 in the year 2001) for aid lead to incoherence and restrict the effectiveness of aid as well as the ability to plan strategically to meet the goals and challenges of development. The focus should be on measurable results.
- Recommendation for the untying of aid for the least developed countries, but this does not apply to food aid. The US is the largest donor of food aid.
- USAID should be the focus of expanding public awareness on aid.

James Hradsky: Development Assistance Committee

- 3 challenges for development are: 1) how to mobilize public support for aid and dispel popular misunderstandings, 2) how to implement results-based management to audit aid programs, 3) the paucity of discussion about how MCA will be implemented.
- Public opinion will respond positively to results based management, because perception is that aid money is thrown away.
- It's time for US to re-exercise international leadership in development aid.
- Results-based management is something that AID has tried to do in the past through ATRIP (African Trade and Investment Program). That program should be analyzed and lessons should be taken from it in the current MCA process.

Summary of Question and Answer Session:

Organizations represented in the Q&A session: American University, World Learning, Basic Education Coalition, Economic Commission for Africa, Catholic Relief Services, Academy for Educational Development, USAID

Questions about the Peer Review mechanism:

Q: Should the DAC Peer review have taken a more holistic approach and looked at Treasury, the Federal Reserve Bank, and other organizations in its analysis?

Q: Is it possible to apply the peer review mechanism to African organizations and institutions?

Faure: NEPAD (New Partnership for African Development) has a peer review mechanism built into it, but it differs from the DAC Peer Review in that it aims to review

not only aid processes but also political principles and issues of governance. The largest obstacle will be overcoming political issues rather than coordinating technical or capacity issues.

Questions about the MCA/MCC:

Q: What will the role of USAID be in developing the MCA implementation strategy?

Q: There seems to be considerable ambivalence regarding the Millennium Development Goals and whether there is international commitment to a common set of eight goals.

Q: Will European nations maintain their assistance to recipients of MCA aid? What is the risk of over-absorption of aid in recipient countries?

Q: Which African countries will the MCA focus on? Only the poorest?

A: There was debate among G-8 countries as to whether 50% of MCA should be focused on Africa. Then the more controversial issue is in the third year, whether to phase in the lower-middle income countries. Even in that third year the bulk of the money from Millennium Challenge Account goes to the very poorest countries. But those that are committed to sound policies of governance, economic opportunity, and investing in people in Africa continue to do very well in all of the scenarios we have run in the interagency process. Start with the basic sound precepts of development: focus on the poorest countries to be sure, but don't set percentages. Meanwhile, whoever falls in or outside in the Millennium Challenge Account, ensure that you're using your other development assistance monies effectively to help those countries hopefully, to become recipients of Millennium Challenge Account money.

Hradsky: We do rank countries on the basis of their ODA volume, and the percentage of their ODA, and the relationship to GNP. But my suspicion is probably you're not going to go a whole lot further than that being explicit.

Cronin: The main goal of the MCC is to "turbo-charge development" as part of national security strategy, as outlined by Dr. Condoleezza Rice and approved by the President. The MCA is a demand-driven strategic plan for how to promote economic growth and poverty reduction. The MCA must go beyond the goals of Monterrey consensus and other international development goals. Economic growth must be the engine of sustainable development. There is less ambivalence in international policy than in the past. USAID wants to ensure that ODA monies are channeled through effective delivery process. MCC will rely on expertise of AID, State, and Foreign Affairs professionals. One role of USAID may be to assist countries advance to the point to where they qualify for MCA funds.

Radelet: The Center for Global Development (CGD) has released a paper on the absorptive capacity of various recipient countries concluding that empirical results are still very unclear.

Fayolle: The issue of absorptive capacity indicates once again, the need for coordination. For example, how will the World Bank and the African Development Bank react to significant increase in aid in a country like Senegal?

Questions on the Untying of aid:

Q: How are other countries dealing with the issue of untying aid?

Faure: Untied food aid is not a problem for most European donors. It's a big coherence issue in terms of policies. We all know that food aid may be a little bit counter-productive in terms of supporting local capacities to produce. For the United States it's very difficult because food aid is linked very intimately in these countries to other processes, which have nothing to do with financial development. U.S. policy must now go beyond the OECD recommendations to untie aid.

Hradsky: Performance-based aid is causing people to look at the issue of untying. Private sector groups approve of the concept of untying.

Questions on the Implementation and Performance of development strategy:

Faure: There are two issues to consider: 1) size of grant money and criteria for awarding grants, 2) consistency between these criteria and that of the international financial committee. One of the concepts, which can be easily expressed, is clearly linked to absorptive capacity. Five billion U.S. dollars is a lot of money linked to the number of countries you are going to give it, which if they are best performers will probably also be seen as best performers by the other donors.

Q: AID should think strategically at a sectoral level: What are we going to do about HIV/AIDS globally? What are we going to do about the environment globally? 1) AID should start moving away from a country focus 2) MCA should take the lead in thinking about development at the country level.

Radelet: There are two issues: Different recipient nations need different approaches/strategies, and global issues like HIV/AIDS, environment, require a different approach.

Cronin: AID continues to be the largest repository of expertise on the ground in the developing world, bar none, for the U.S. Government. Pillar bureaus have been

reorganized under Natsios: Sectoral strategies in place: Global Health Bureau (HIV/AIDS), Economic Growth, Agriculture and Trade.

Questions on Coherence and Coordination of Aid:

Q: 1) Other countries may only have 20-25 agencies involved in delivering assistance. 2) Is US aid driven by domestic policy or foreign policy, 3) Is there a country with a good model to follow in terms of policy coherence?

Q: Are Poverty Reduction Strategy Papers (PRSPs) a good vehicle to improve coordination?

Josefsson: One option is for the creation of a cabinet-level post in the US for Aid and foreign assistance would help create more coherence. Align bilateral donors under the PRSPs.

Radelet: PRSPs are not specific enough for health and education guidelines.

Faure: PRSPs should be the partner country's way of presenting strategy, built into the PRSP medium-term frameworks for capacity enhancement – we need support from donor community, capacity building, strong policies – coordination.

DAC PEER REVIEW

Washington Presentation of the DAC Peer Review
of Development Cooperation Policies and Programs of the United States
December 4, 2002

Nancy Birdsall: Welcome to the Center for Global Development and to our sister institute, the Institute for International Economics. We're very please to have the opportunity today to co-host with the Development Assistance Committee of the OECD the DAC Peer Review of U.S. Development Corporation.

This is, I think, the kind of event that bespeaks very well the new wave of thinking in the foreign aid community, which is all about performance. In that context, peer review and critical feedback are essential. The Center was started about a year ago to focus on development issues, and particularly to focus on the policies and programs of the industrialized nations, and see how those might be changed in order to create a better environment for developing countries to prosper, and to have inclusive prosperity. It is therefore an important event for us to have the opportunity to bring you together to hear this DAC Peer Review. It is very much in the spirit also of the new Millennium Challenge Account. Although today's review obviously won't cover what is now planned, in terms of future foreign assistance efforts, certainly the kinds of discussions that you'll have this morning will continue to influence thinking about the shaping of new programs.

I want to introduce, briefly, the next two people who'll be in moderating and making the first introductions. **Steve Radelet** is going to moderate the remainder of the proceedings. He is a Senior Fellow here at the Center, and was the Deputy Assistant Secretary in the U.S. Treasury for Africa, the Middle East, and Asia for the past couple of years. He's been working very hard and very effectively since he came to the Center in July, on issues surrounding a defectiveness and in particular the Millennium Challenge Account. I also want to introduce Patrick Cronin, who will make opening remarks. Patrick was Director for Research and Studies at the U.S. Institute of Peace, an independent federal agency, before he came to USAID. Before that he was at the National Defense University's Institute for National Strategic Studies where he directed long-range studies. He served as the executive secretary to the U.S. chairman, Paul Wolfowitz, of the Trilateral Forum on North Pacific Security. This is a person who, in my view, has decided that it is important *strategically* to be very open and transparent. I hope that he'll emphasize how in this peer review process he brought with him the USAID approach of ensuring a lot of openness and transparency into an international institutional context. Patrick is an apt candidate for a leadership role in shaping U.S. foreign assistance strategies, since he comes from a background of thinking strategically as well as about security issues, which ought to be joined with development problems. So with that, let me wish you a warm welcome. I hope that all of you can focus on remembering that the kinds of critical reviews that you will be adding to the critical review already done, can really help shape the thinking of the whole community in

foreign aid on these issues of results and performance.

Patrick Cronin: Thank you very much for those kind words. You've been a tremendous leader, Nancy, in setting up this Center, and we truly appreciate your hosting this as well as other forums that really inform the community and bring in a wide debate.

I want to thank the Development Assistance Committee and the people that have supported the review from Sweden and France. Not only Jim, but Ambroise, and Pernilla, and Jean-Claude Faure as well for his leadership at the head of The DAC. They've done a tremendous amount of work this past year reviewing the United States' Foreign Assistance policies, a review that happens every four years.

My staff initially cautioned me that we had a very full schedule and suggested delaying this event, coming in the midst of the Afghanistan Relief efforts. We said, "No, we have to move ahead," because it's important to reach out to our peers and to undergo a peer review, as one of the most meaningful reviews for us, undertaken by professionals who have no axes to bury and nothing to hide. We did want to make it transparent; we made sure that they had complete open access to everybody and everything they needed to undertake a thorough review, because this was genuinely for us an opportunity to get, essentially, a free critique of what we're doing well, and what we're not doing. I think they've done a first-class job. I want to make a few introductory comments about first the difficulty of the task, and then raise three of the more tricky issues that there may be some divergent views on.

Obviously, we have the largest donor agency, in terms of volume, in the world. We encompass an enormous range of different sorts of programs in our \$11.4 billion Official Development Assistance in 2001 (the last year that we have a total). That's about one-fifth of the total Official Development Assistance in the world. This does not yet include the \$5 billion a year that will be added to United States' Official Development Assistance by 2006, under the President's Millennium Challenge Corporation proposal. Nor does that official Development Assistance number include the 70% of the capital flows that come from the United States to the developing world, which are private capital flows. We very much try to shift the debate from, historically, looking at Official Development Assistance as the main *driver* of development, to seeing it as a *catalyst* for sustainable development, something that could mobilize and unleash the bulk of the resources that are potentially already available to help alleviate poverty and promote economic growth in the developing world. We have focused very much on that approach in this process. I think we also like to take recognition of the fact that the United States is playing a role in supporting the developing world in many other ways, including in our markets through the U.S. economy, and in the role we play in international peace. We very much appreciate the DAC's recognition of that in their review as well.

Let me now just raise three issues that may lead to some more interesting debate, and that certainly come emerge in this report. The first is the focus, in parts of the international community, on poverty reduction as the goal of development. This is, obviously, a very laudable goal. But from the perspective of the U.S. Agency for International Development and the U.S. Government, we generally see it as an essential but insufficient component of development. Rather, from our perspective, economic growth is, the only real way to promote and achieve *sustainable* poverty reduction.

These are not things that can easily be separated, and we're not suggesting that you should try to separate them. We simply want to start with the recognition that, unless we promote genuine economic growth that can be sustained over time, we're not going to be able to do anything more than deliver welfare; once that gets cut off, there is no institutional capacity, to promote economic growth and thus reduce poverty in the long term. We're prepared to accept some disagreement with a few other donors on this matter. This does suggest, however, that a social services approach alone is not sufficient, even though it is important. The United States is very proud of the leading role that it plays in issues such as health and education and other social services, but we do focus rather on economic growth *as a way of reducing poverty*.

Let me just digress here and talk for a minute about the fact that we are extraordinarily mindful, in the U.S. government, about the two billion people in the world who live in countries who've had nothing but negative growth for the past 22 years. This is very important to our mission, and a central concern within the foreign assistance community. We are well aware of the literature -- including literature produced here at the Center -- that documents how economic growth is being blocked by bad institutions (as discussed by William Easterly). Economic growth is blocked as well by a lack of legal protection, including a lack of property rights, as Hernando de Soto has written so eloquently. He is one of the people that we have funded generously over the last 15 years; his insights were taken very seriously in the U.S. government. Corruption and its henchmen, stateism and leaderism, are also blocking economic growth in private sector development. The international financial institutions, who will have to be part of the solution, have offered some very interesting macro-economic proposals, often neglecting however some of the micro-economic work that must occur for there to be real private sector development in economic growth. We need to bring business development and micro-economic changes to the center of development. I believe that's what this administration is trying to do, not only through AID but especially through the Millennium Challenge Account. This is the way to really achieve poverty reduction.

Policy coherence is a second area. This is a buzzword in the international community that can mean very little or that can mean a great deal. It is both a strength and a weakness of the United States' approach to foreign assistance. We have tried to make it a strength. To be honest, however, in the report in the DAC review, we can recognize some incisive criticisms on this issue. It is a huge and costly challenge in foreign assistance to coordinate the many specific departments, and agencies, and offices, and individuals, involved in the decision process. The strength of the policy-coherent challenge for the United States government is that we now can coordinate with health specialists at the Center for Disease Control and agriculture specialists at the Department of Agriculture, or work with OPEC on private risk insurance. But that's also a challenge. How do we make sure that we can coordinate and make rational decisions about the most effective and useful ways to promote economic growth and alleviate poverty? I spend most of my time, in fact, on trying to effectively communicate and coordinate these policies. Our donor coordination staff -- who worked overtime on this DAC review -- Manara, Norm Nicholson, Brian, France, and others, have tried to do this internationally. Even within Washington, with Treasury, with the Office of Management and Budget, with the National Security Council Economic team, and with other departments and

agencies in the government, this is the day-to-day challenge that we face in order to make sure that we can implement sensible, effective, foreign assistance policies that will help the developing world. Again, I think there's a lot to be learned in The DAC Review about our policy coherence challenge. We have to do it even better than we've done it to date.

The third and final issue I wanted to touch upon briefly is the Millennium Challenge Account. This is one example of how the United States government is searching for new ways to address the key development issues. Last week, we read in the papers the announcement from the White House that the Bush Administration was establishing an independent U.S. government agency, the Millennium Challenge Corporation. This was done working very closely with AID's support, working with Treasury, the Office of Management and Budget, and the State Department. Al Larson and Gary Edson played key roles along with Robin Cleveland, and Andrew Natsios participated in the principals' meetings with Secretary Powell and Secretary O'Neill, John Taylor and others. This was a very well thought out plan that we've been discussing ever since the President announced his contract for development in March of this year. That corporation is going to try to focus on the attributes that we can demonstrate are most necessary in development assistance: to focus on rewarding performance and creating the incentives for ongoing reform for good governance and economic openness, for investing in people. This initiative is going to direct larger levels of assistance to the poorer countries. The \$5 billion in the first year is generally going to be focused exclusively on countries that are IDA-eligible -- the poorest countries in the world. This will provide significant pots of money for each of those countries, which is different from the way that we deliver some of our systems now, which often is broken down into very small pots of money. While that can do a lot of good, it often fails to attempt more significant, strategic change.

The Millennium Challenge Corporation will embody another precept of good development, of country "ownership" of programs. That is, recipient countries will be developing their own proposals as to how they would use this assistance. It's going to be demand driven rather than created from afar. An African country that becomes a recipient from Millennium Challenge Corporation will tell us how they can have a business plan that would be effective. And this Millennium Challenge Corporation will try to implement a related lesson that comes out of this DAC Review, which is to reduce the directed programs from Congress, no matter how well intended. The fact that so much of our budget is *earmarked* constrains a more strategic approach to development assistance. It does not allow that *demand-driven* approach on the ground. Instead it says, "We've got this kind of program and this kind of program, don't you need that?" Well, yes, they do, because they have a range of needs; but whether that adds up to the economic growth needed to make development sustainable is another question. I think Millennium Challenge Account will have a chance to do precisely that. It will monitor and will fund projects that focus on measurable results. There's no illusion that we will see results in six months or even two years; this is a long-term commitment. So it will focus on intermediate benchmarks of measurable results, to demonstrate that we're not just interested in having an input into the development world but we have a commitment to what it is we're growing, what kind of technical capacity are we building, what kind of opportunity -- and hopefully economic growth -- are we managing to achieve.

I want to close by again thanking Jean-Claude Faure and the Development Assistance Committee. I hope you will listen to their incisive remarks and read the report. I very much look forward to the discussion to follow. Thank you.

Steve Radelet: Thank you, Patrick. I think you've touched on exactly the right points to get us started in the discussion today. Let me turn now to Jean-Claude Faure who is the chair of the OECD Development Assistance Committee, a position he has held since January 1999. He presides over the main OECD body through which donor members try to enhance the efficiency of their efforts to achieve sustained economic and social development. He's critical to the review process that goes on in the DAC, whereby each member country is reviewed every three or four years. Most recently, before this, he served as the principal private secretary to the state secretary with responsibility for cooperation in the French-speaking world, as a career civil servant in the government of France. From 1994 to 1996, he was the principle advisor to the Global Coalition for Africa, here in Washington. We're glad to have him back for this short visit. From 1986 to 1993 he was the Director of the Development Directorate in the Ministry of Cooperation and Development, after having been Minister-Counselor for Economic and Financial Affairs to the French Delegation to the United Nations. He thus brings a wealth of experience to this project, and we look forward to hearing his comments on the U.S. review.

Jean-Claude Faure: Yes. Thank you very much. I think this is a very welcome opportunity to discuss practical issues, which are in a sense the issues we are all confronted with in the donor community these days. That's certainly something that I want to stress.

I would like first to set the landscaping in a sense. I would like to remind you where we were in 1998 at the previous DAC Peer Review for the West. If I'm not mistaken it was a time of mixed feelings and some misgivings. After all, Official Donor Assistance (ODA) was at an all time low, and going down year after year -- the United States along with the others. On substance, the new community was not very successful in embarking on the path for implementation of the DAC's strategy for the corporation for the beginning of the 21st Century. We approved a document in 1996. It was an ambitious document with high priorities, poverty reduction, and their own partnership. There we were. Not being very much able to move forward in those times, when aid was going down. Of course on looking into the U.S. corporation policies and practices we were signaling issues that we are still signaling today, or that we were signaling a month ago or two months ago, around the difficulty to get a strategy framework. Now it is changing. The difficulty is to move Congress and policy makers in this country from micro-managing activities in that area and having some sense for strategy -- so maybe yes, things are still down when it comes to implementation. But I would say it is a totally different context, as Patrick was saying also. I would like to mention two keystones -- and a big challenge. The first keystone, of course, is that in a year or so, from Monterey to Johannesburg and through September 11, we now more fully share in the belief of the international community at large that *the poverty gap cannot be sustained* and that we all need to strengthen and increase the globalization process. It's a question of self-interest. It is a question of mutual interest. Peace and security, that's been mentioned. Global environment issues. Sustained broad based development and growth investment in trade.

Fighting global threats, like terrorism, of course, traffic, drugs, AIDS. Shaping mutually beneficial answers to new issues, or maybe new ways to consider issues. These are some of our common endeavors for the future -- and I think that the national security strategy of the United States embodies that as a starting point, in a manner which is concerned with all our endeavors in the international community, but also very promising for the future. Then of course the second cornerstone is that we know now, better, that to move into that area means public participation in development. It means poverty reduction first as a priority, because you're not going to develop if you're living in survival conditions. You're not able to develop. So poverty reduction and development based on shared strategies, strong policies from our partners, to meet social needs, health has been mentioned. During the peer review, we looked into U.S. policies in the area of health and we welcome achievements in that area. But it also has to do with sustained growth and promoting broad-based approaches. Then it means that you have to play the game by the same rules, and governance maybe is another name to say that we have rule of games to be respected. So I would not disagree with what Patrick said a moment ago, but maybe while saying the same thing maybe yes, poverty reduction and development need to go together. Taking care of social needs -- moving on that front. It's taking care of conditions promoting broad based sustainable growth. All these roles are catchwords and they are mythical words. But they have very practical content. Broad based growth means something in practice. Development means active and operational partnerships. Responsibility and empowerment also are catchwords. But they are precise things behind that. Ownership is not a concept. It should be a practice. Empowerment calls for capacity building on large scale. We mentioned during the Peer Review the activities of the U.S. in that area of capacity building. Especially in the trade, capacity for trade. That's empowerment. We know that it calls for financing development, sustained interaction between domestic resources, international firms -- investment firms, and aid. The aid has to increase. If we follow the reports we read about, from the World Bank and others, maybe to achieve the goals we have set, the world will need ODA increased in vast proportions. Here we are today. That's the new complex and these two keystones are there as building blocks.

The other keystone is the Millennium Challenge Account. We have the USODA response. That's not nothing, that's not minimal. If you add that to what has been decided by other countries, it will mean in 2006 that ODA will be about 25-30 percent more than today. Twenty-thirty percent increase -- that's not just a nice increment. It's a qualitative change and a quantitative leap also. So these are the two keystones. But then, of course, the big challenge is for all of us at this point, we are all confronted with the necessity to move forward and to implement. When it comes to action, the dynamic and sustained process we need will rely on three pillars again: Governance, coherence, and performance. Governance and good policies for all. It means our governments in the north, governments in the south. It means the private sector. This dimension of governance is crucial these days and that, in a sense, means a lot when it comes to bringing the private sector, as partners, in all of our endeavors. There you have, in this country, working very much on the private sector front, and non-profit private sector also. Andrew Natsios had much to tell us about that during the Peer Review. The coherence -- I would not come back to that because it has been mentioned; maybe it will be put more

precisely in that environment. Of course, as you said Patrick, between what we do, all of us, yes, we lack coherence. We all lack coherence. That's one big challenge for the future. Coherence is not only that. It's also systemic particular to try to link together what we do. For instance, as you are doing, we are doing together in Afghanistan to link cross-conflict activities, emergency actions, resumption of development, and development policies. That's the key coherence element we're all confronted with also. We move too slowly on that front. It means also that we, the bilateral donors so to speak, have something to tell to the multi-organizations also, because they are confronted with the same problem of coherence and consistency. They are doing a lot of things. It may be overlapping from time to time. It may be redundant. Some hollows, some loopholes are still there. It depends on us to move with them also on these fronts. I think maybe of AIDS and things like that. So yes, coherence is one of these challenges of implementation that deserves consideration. To move much more strongly on consistency between policies, subsidies, the Peer Review process has to be strengthened a lot. It has to be strengthened not only to help member countries in DAC to move forward by showing them what the prospective could be. It's also that strengthening the process is necessary for all of us who have to learn from these experiences. We have to share and we have to move into much more coordinated and inclusive ways to do things. I guess this has been the main message from that Peer Review. It may well mean that after all there is a kind of coming of age there for all of us. It's not only a nice OECD manner of doing things, to Peer Review of our members on many fronts - economy policies also, social policies, education policies, and corporation policies. But it's that we need to move together much more in an inclusive manner. I guess that was, for me, the main lesson from that Peer Review. I think that our focus in that process, in that exercise, has been very much on that. Thank you very much.

Steve Radelet: Thank you very much for those comments. We now turn to Ambroise Fayolle who is the Deputy Director of Debt, Development and Emerging Countries for the Treasury Department of the French Ministry of Economy and Finance. Within the Ministry he also holds the position of Vice-President of the Paris Club. So he is deeply involved in issues around HIPC, debt relief, and other issues of concern to us. He a member of the board of several development agencies including the French Development Agency and the Global Environment Fund. During his tenure in the Treasury Department, which began 1991, he occupied several posts, and was a member of the Brouhns committee, and Alternate Executive Director for France of the IMF in Washington, and a lecturer at the Institut d'Etudes Politiques in Paris. Ambroise?

Ambroise Fayolle: Thanks very much, Steve. Good morning everybody. I've been asked to touch upon two of the key issues which have been discussed in Paris during the Peer Review. It has been one of the major interests for the two countries in charge of the Peer Reviews, which is to build a common vision and to foster stronger international partnership. I would like first to start by saying that for France there has been something of which was of great interest in this exercise of Peer Review. Firstly, and I thank very much the U.S. authorities and especially Patrick Cronin for this. The U.S. has been very forthcoming in telling us what was the contents of the issues at stake. We have been very tough in asking questions which might or might not have been expected. They were very forthcoming in the response to these questions. It has been of great importance to

explaining to the other members of The DAC about the U.S. recent developments of the development policy. Secondly, the fact that the review took place at a time when the MCA was under discussion, was of incredible interest for the reviewers. Not only because it is something which can be seen as a sort of the flavor of the month. Because we had the feeling that there is really a big change in the way that the U.S. is looking at developing policy. This is why the Peer Review, in our view, has been so interesting and the discussions in Paris were also very thorough. If I might just come to the two issues. I will link that to the MCA because MCA is something which would have probably great impact, on the way the U.S. looks at its ODA policy. Not only because of its size. But the size does matter. When you increase by \$5 billion U.S. dollars your developing policy, this is basically something which will bring the U.S., by far, in the first place in terms of ODA policy -- although not in terms of relative share to the GDP and the U.S. It makes a huge difference for the last position the U.S. has in The DAC Committee. But in terms of money given to the poorest country that will really make a difference. Plus this is something which is a new initiative and in its concept we found that very interesting. How can we link this to the two main issues which have been discussed in Washington, and in Paris, and in the fields during the field visits -- the common vision and the international partnership? One of the elements which is of interest, because it is an important difference, between the last Peer Review and this one is the fact that we had the feeling that *more and more agencies are involved in the U.S. ODA*. We see that as many as 50 agencies are delivering foreign aid in the United States. The question that I have is, how does it reflect in the vision, or the common vision, for the U.S. to have an overarching way to look at ODA policies? Is the process, or the decision making process the most efficient one to develop this kind of vision of the U.S.? That being said, it is true that the MCA has been an element of change for this. Basically one of the questions we have, and we have discussed with all U.S. fronts, is to what extent could we develop coordination among the different agencies? The second element is the other partners, the international partners in charge of developing their own ODA policy. One of the important elements which I discussed over the last years is how can we increase coordination, harmonization, efficiency at the international level? It's true that it's not only the fact that there are the different countries, the European Union or the NDA focal point, etc. But that we have to work our way together while trying to increase the efficiency of the ODA as a whole for the benefit of the recipient countries. This is an issue that we have been discussing extensively with our U.S. partners, especially with respect to the MCA prospects. If you want to concentrate a lot of money on countries which will be eligible we wanted to be sure that this is coordinated with the U.S. initiative. That's something which has been around for the U.S. President but that the criteria which would be chosen for selecting countries would be totally consistent with how the others see the performance of the country - how the others see what is efficient in helping or increasing funds given to a country. The U.S. has played a very important role in trying to increase the efficiency in the recent past. I'll just give you two examples. I'm the French Deputy. We had a very long discussion at the World Bank on the grants and IDA. You all know this. My country has been supportive of the concept of having a grant window from the beginning, after the U.S. has launched this initiative -- not as far as 50 percent however. This has been where I think the compromise we have found is

something that is going to exactly what we should do at the international level. **The U.S. has also been very helpful in trying to put something like the thought of recent ... for what the international franchise institutions are doing. More like ... allocation for the conditional flow from the World Bank or the ... regional developing banks.** This is also something which is of great help. The way we have discussed the MCA in this perspective is that the U.S. was to be sure that how they would go in this big initiative would be consistent with how the others are discussing the issue. Looking at what has been released this week on the MCA there is something that I found of great interest, which is the choice of criteria which are linked to sources which are familiar to all of us, and transparent. That is something which I find is a good answer to the concept which has been expressed by many members of the DAC during the meeting. So I stop there.

Steve Radelet: Thank you very much. You've raised several important issues which I'm sure we'll come back to in the question and answer period. Our next speaker is Pernilla Josefsson who is the Swedish Delegate to the DAC representing the Swedish Ministry for Foreign Affairs. Her responsibilities also include working on sustainable development, environment, and cooperation with non-members. She was previously based in Stockholm at the Department for International Development and Cooperation where she was for four years. She's been at the DAC, by the way, for two and a half years. Previous to that she represented the Swedish Government in working with the IFIs. We are pleased to have you join us this morning.

Pernilla Josefsson: Thank you. I think this exercise is something that we all appreciate a lot, sitting on the DAC where we do discuss strengthening the Peer Review mechanism. I think that this is a crucial point, with the follow up meetings where you can discuss with the people you've actually met in leading to the Peer Review and also other interested DAC actors. I would just bring out two things that we highlighted in the report that's only been touched upon. One is promoting policy coherence for development and the other one is effective and efficient allocations of aid. I think those were two issues that sort of stood out in the review. When it comes to policy coherence, it is, indeed, a catchword. It's something that we've already touched upon in the last report of May 1998 of the Review of the Youth Development Corporation. It is also something that all donors grapple with. It has been a theme in the last four reviews, the last five reviews, and I think also in the effort to strengthen the Peer Review mechanism. I think the ambition is to potentially draw out some of the conclusions that have been brought forward in these different reviews. Now having said that the overall coherence between policies is a major point for the effectiveness of donor assistance, there are several areas, but if you take two areas that are most often mentioned - trade policies, and agricultural policies, we note the efforts already made. France has opened up its market to developing countries and also, of course, there are limitations. It was hard not to be struck by that wild card, the agricultural sector. That is a priority for USAID and it is also a priority for the MCA. When the individuals were in the field at the same time, basically, the farm bill was passed. Maybe the needed effects were not that strong, but it does, of course, have an impact. If you look at export-related rule of development activities and the choices to be made in the future, I think that is, of course, an area we had to look at, and I think one could discuss further. Of course, as you are aware, from our own administration the policy coherence is a difficult challenge and it's very close to linking

how domestic policies are made, with the political reality. What we tried to do is, of course, to look at how the U.S. could try to more effectively, and more coherently, and systematically address this issue. We did make a number of suggestions in the report. I'm not going to go through them because I think they're there, from developing a mission statement to using the policy coordinating committee on development more efficiently. Give a more prominent role to increasing analytical capacity at the USAID, and so forth. I think what is interesting, of course, is now the new proposed corporation. Will this further confuse the coordination, or is that an instrument for increase in cooperation, and coordination in the long term? I think that's an issue to be raised. Furthermore, in terms of development, the effective allocation of aid. We were struck here in Washington and in the field, by of course the earmarks: we counted, I think, 270 separate provisions and earmarks for the fiscal year 2001. We were impressed, especially in the field, by very competent staff. They were putting together strategies, picking up on different earmarks, and actually coming together with somewhat new strategies, very innovative. Now we are asking, is this, could this be done in a more effective manner? I think also the challenge lies in moving away from the earmarks. Also it means looking at the improved version to measure results. Which I think is very good. We do think is a very good development. It's far from a system that we have in Sweden. We do not earmark. It potentially lost staff capacity; it increased costs, at least what we saw. Another issue that we saw also in the field is, of course, the untying of aid. In The DAC there's been 30 years of negotiation that ended 2001, and a recommendation on untying of aid to the least developed countries was adopted. Now in these recommendations, actually, food aid and freestanding technical operation is not covered. Which means that the U.S. implementing this recommendation does not really affect or increase the amount of untied aid for ODA. What I would like to bring up is a potential to move beyond the recommendation into identified areas. One of them would, of course, be food aid. Now the U.S. is the largest donor of food aid. Also, food aid is a highly debated issue. It's complex. It's labor-intensive. Besides untying, of course, we did see in the field that this is also perceived as something that could be simplified, and also potentially replaced by just plain funding. Of course, this is a debated issue. We did debate it highly with Andrew Natsios when he was in Paris. I do think, though, this is important; the food aid is something very particular to the Youth Development Corporation, and I think it is important to bring it up. Finally, I would just like to actually thank the OECD Secretariat. These Peer Reviews are made to examiners that represent the DAC in close cooperation with the OECD Secretariat. We have James Hradsky with us here today. He took part in the entire review. I would like to see if he had something to add who has been extremely supportive and helped this process a lot. Thank you.

Steve Radelet: Thanks. As Pernilla suggested we'll turn to Jim Hradsky for some very brief comments to finish up the first part of our session. Jim is the senior member of the OECD Development Co-operation Directorate, where he has been since 2000. He has been involved in Peer Reviews for the Netherlands, Germany, the EC, the United States, and Denmark. He spent 30 years in the U.S. government. He was a Peace Corps volunteer. Then worked for many, many years with USAID. He brings particular knowledge both of The DAC, but of the USAID.

James Hradsky: I would like to just plant three challenges on the table for future

consideration. The first challenge that we saw that came from the Peer Review of the United States was the need to somehow mobilize public and political attention and support for development cooperation. Particularly the United States Government, and particularly USAID as the first among equal of government development agencies. We saw a fascinating history of public opinion that was spun out by groups like the Center on Policy Attitudes, who have done several surveys of public opinion and support for aid. I'd recommend them to your reading if you're interested in the topic. Which clearly demonstrates that the American public is poorly informed, if not misinformed, and has been for at least ten years. There's a lot that needs to be done in this area. There's certainly hope on the horizon with things like the MCA and the fact that there are other partners out there - non-governmental, and other agencies who have the potential to reach out to the public and the political process used to encourage greater support. The second challenge that I would leave on the table for possible future discussion is the issue of results-based management which was discussed briefly by Patrick a second ago. The challenge, I think, to the broader international donor community, and not just to the United States, is to try to figure out how to manage by results. How the various publics around the world, taxpayers around the world, want to make sure that their money is being spent intelligently. There is a real need, not just for the United States, but for all countries in the world who offer development assistance, to look at this issue of how do you do it? USAID has been in the forefront, I think, in the U.S. government since the 1993 Government Performance Results Act, of trying to do this sort of thing, but clearly the skeptics have not been convinced. There's much more to be done. Probably innovative, totally different types of approaches need to be used to address the question. It is the sort of thing for which the United States Government, the USAID needs to reach out to the international community to try to find a solution. I might just mention that next week I believe, Patrick, there is a Partnership Forum in the OECD which is, I think, a major event in this respect where USAID, and I believe the Treasury Department, will be discussing this very issue. The third challenge that I leave on the table is goes back to the MCA. It is such an important topic for all of us here. I'm sure it's a preoccupation for many in the audience. I think we came out of the Peer Review quite impressed by the quality of strategic thinking, and reliance on best practice kind of information that was used to try to put together the MCA. On the other hand what bothers us a great deal, based on our review, is that very little has been discussed on that in terms of implementation of the MCA to date. We're very fearful based on our world-wide experience, not just from the United States but from elsewhere, that the real stumbling block - the most difficult part -- is going to be actually implementing up to \$5 million a year in some of the poorest countries in the world. So I'll stop there.

Steve Radelet: Thanks. We have a lot of issues on the table here, policy coherence being the big one. The multitude of agencies within the U.S. Government, and how to coordinate policies. The earmarking of aid, which Pernilla and several others talked about. Lot of talk about the Millennium Challenge Account in terms of its coordination with other agencies -- whether that will confuse things or enhance coordination. Coordination not only within the U.S. Government but also with other donor agencies. The selection criteria. We have lots of things to discuss.

Steve Radelet: What I'd like to do in this portion is have some open discussion. I'm

going to use the Chair's prerogative and ask the first question to get us started. I'm going to ask Patrick Cronin, particularly, an issue on the MCA, MCC now, that's come up and just how he sees specifically the coordination happening between USAID and the MCC going forward. Part of that question, I guess, is the strategy for the countries that are selected. The USAID will work, perhaps both in those countries and others, and just what that strategy looks like going forward.

Patrick Cronin: Steve, I'll try to answer your question. Of course you've written one of the best things in public right, and your immediate reactions to the Millennium Challenge Account announcement last week, and a lot of insights. I know you've been following this closely. You know that this is a work in progress. We're all waiting to see how we will do the implementation that Jim referred to, which is indeed going to be tricky. I think it is important to say a few things though. The Millennium Challenge Account and the Millennium Challenge Corporation are intended to help the U.S. Government and to help the U.S. approach to turbo-charge development assistance. I think, as Jean-Claude was saying, four years ago there were big questions about the future direction of U.S. foreign assistance. If we can agree that aid effectiveness and a new approach to development assistance will help attract more resources, mobilize more resources for development in the developing world, then we will get strategically where we, I think, want to go. This is something that is not competing with AID. It is something that is intended rather to help reform and turbo-charge development assistance *including* AID. How will that work? Well, it has already changed the way we do business within AID. This past year we set up this "situation room" to measure performance for the first time. We want to know now how we're going to manage poor results. Not just the input. Not just the amount of money that's going into a particular sector, in a particular country. That's no longer satisfactory. We want to see the larger results we're getting. We want to make sure that the Millennium Challenge Account criteria -- part of World Bank Institute accepted transparent indices that the world already uses -- we want to make sure that we're applying them to our current budget process. Not to determine, absolutely, decisions, but to inform it and make sure we're asking the right questions. We started to do that with our budget process at AID this past year. We want to make sure that the Agency for International Development --which manages or sees nine billion of the official development assistance monies go through in contracts or grants -- we want to make sure that AID is considering the most effective delivery mechanism in partnership with the country. That's something that the Inter-agency process, the discipline of working on the Millennium Challenge Account, has reinforced and helped. That hasn't always been pain free. It's painful to say that somebody else in some other agency or department can do something more effectively. If the results on the ground in the developing world are positive then, again, we advance the cause of effective development. That's been a result of the MCA. I think, finally, the Millennium Challenge Account in addition to the Corporation relying on the field expertise of AID, the State Department, or the Foreign Affairs professionals will also be looking for AID to work in the countries that are not recipients of the Millennium Challenge Account money. That will be the majority of them. So not only will AID be continuing to work with the failed institutions and states where we have to have ongoing work, that are not going to be right for Millennium Challenge Account. But, we will work also with those

countries that are just missing the mark, that are just in need of help in a particular area, such as the ruling justly/good government criteria, or the economic openness, investing in people. Or AID may be able to step in and help enable those countries have a better chance to become Millennium Challenge Account countries. So that critical supporting role, as well as critical staffing in the field, is helping us to continue to think through how we will do consulting processes with the country that are included. Make sure you have the demand driven business plan or strategic plan for how to promote economic growth and poverty reduction. That's a very general set of answers but that's about as much as can be said at this point, Steve.

George Ingram: I'm George Ingram with the Basic Education Coalition. I'd like to ask The DAC Panel to place policy coherence, or assistance coherence of the U.S., in the context of other donors. I'll give you three specific areas where you might comment on. One is, other countries may not have 50 vehicles for delivering assistance, and influence policy. But they may have 20 or 25. Secondly, is the U.S. Development Assistance, Foreign Assistance, more driven by domestic politics, and more closely tied to our foreign policy than in other countries? I know that in the case of France there is some relationship between French Foreign Policy and their foreign assistance. (Laughter) Thirdly, is there a model? Are there two or three countries which are particularly good on policy coherence? Are any of those models relevant to the U.S.?

Jean-Claude Faure: Yes. What an interesting question about France. I'm sorry I'm no longer French. (Laughter) Two questions. First, you have about 50 agencies here. Maybe you say 20 in this or that country. That I don't know frankly. I think it's less than that., much less than 20 -- even in countries like France. Maybe that's an issue, maybe it's not the issue. The issue may well be, why not have several agencies dealing with these corporations, approaches, programs, etc., if there's a comparative advantage. The real issue is what does that mean on the side of resources? On the market side so to speak. Or the multiplication of drawers. If we have 50 agencies that may mean that you have 50 drawers where you have some monies. How do you work together with these 50 drawers? So that's one issue to be solved. The second issue to be solved is coherence in policy terms. Are these agencies pulling in the same direction? Maybe yes. It is better to have less agencies working. But it's important that we don't have that drawer value, that problem, that constraint of having too many drawers that has to do with market and budget management. Maybe it's a big problem if we don't have an integrated strategic approach and yes, I agree, the U.S. is making much progress on that front. At the same time it may well be that with this orientation on this or that sector, this or that approach is not mainstream and that means that the USAID should play a more active role as the main coherence agency, so to speak. Then, yes of course I guess that many countries are cooperating with some linkage between what they want to do, and some elements of their foreign policy. You mentioned France; you may mention others. Canada certainly is working on close cooperation with some countries for reasons which are linked to the importance of migrations from these countries to Canada, for instance. Why is it that New Zealand, for instance, is certainly more active in Southern Pacific than in many other regions. They have a role to play. They have a comparative advantage. They are regionals. So, I guess this is not bad by nature. I don't think that we should see that as problems. After all if we are in among partners, if these countries are partners that means

that these partners are somewhere in the world. They share some concerns in the sub-region. Some African countries share some concerns and approaches with European partners. Certainly France is part of that process in the reactive manner. So, I don't think it's legitimate, frankly. It means, there again, that we should build partners - strong partnerships. All the reasons underpinning these partnerships are certainly legitimate provided the partnerships are good and effective. But many of France went, I'm sorry a little bit more than that.

Ambroise Fayolle: Thank you Mr. Faure. Just to give you two or three elements in addition to what Jean-Claude said. The very purpose of a review of this kind to look at what is the different elements of the AID policy and how we think it might be improved or better drawn. This is not to say that the U.S. would be the lame duck in an effort where all the others would do something totally consistent. We try to pinpoint, to stress some of the areas we think we might have room for discussion and possibly improvements. It's probably even more relevant because, given the size of the U.S., its size also influence the policy taken by the other donors in general. As for France, we have an extra view, I think. In one year from now we'll have our part in a review at that time. I'm sure they will review us. Second, the point we wanted to make in the report. We are linked to two basic issues we think of very key importance from the point of view of the recipient countries. I spoke last month with the Minister of Finance of Mozambique. She told me that Mozambique is quite good performing country, for the time being, and this is attracting, of course, a lot of donors. Very often they have their own procedures. This is something which is already a problem for the country itself. So the way we wanted to put the question was first, are you sure that this decision-making process you are following internally is the most appropriate? And secondly, in the way we work together in international financial community to try to improve the harmonization of procedures, etc., is your system leading to improved overall system, or not? This was the very sense of the remarks we've made. As for France clearly, it's part of the foreign policy as I would say everywhere. When the French President says that he wants to increase by 50 percent by 2007, or when he says that foreign aid will probably be one of the key elements of the G-7 summit in France next year, and that we intend to maintain giving more than 50 percent of our aid to African countries, it's not only foreign policy.

New Speaker: Can I add one thing? I think foreign policy considerations play a role in every development corporation. It's hard to avoid that. Now maybe less so in Sweden and the Nordic countries. But of course we have our history and I think we were reviewed by the U.S. I think we were involved in whatever, 108 countries, with questions. So of course, we also have our history. Regarding the question when it comes to find so-called you know. I don't the aim of this exercise is to find the good performers or the donors. I think one can note, and I think we noted during the review that promoting policy coherence for development is ... I mean certainly, of course, certain countries might have structures that make it more easily done. One of those could be to have development corporation minister have a seat in the cabinet. I think we most noted that with France and Sweden. That is something we kind of tried to bring up in the report to strengthen, maybe, the role of youth, the USAID, and also the administrator, that getting the voice in there more prominent.

Margaret Goodman: Thank you. I'm Margaret Goodman from World Learning. I'd like to have the panel comment a little on the issue of tied aid. And, again, similar to George's question, on the international context for it. I note that there is perhaps some contradiction between the recommendation for moving away from tied-aid and moving beyond the exceptions in the DAC policy. And the issue of increasing political support for domestic support for U.S. aid. The fact that food aid is probably the most popular part of the U.S. aid isn't a fact that occurs in a vacuum here. What I'd like to hear a bit is how other countries are struggling with this same dilemma. I suspect that it's not unique to the United States. Thank you.

Jean-Claude Faure: Why aid should be more widely untied? We all know what are the good reasons to do that, in terms of ownership, and in terms of multiplier effect of local investment, if it so happens that the procurements are open to local companies. It's part and parcel of the capacity reading process. For the local private sector also. We've costs, intermediation costs so to speak. Let's think that the arguments are there and that we all know that. That's not the challenge. Yes it's difficult. It's more or less difficult to move in that direction for developed countries, for donors. You mentioned food aid. I see that. At the same time food aid, untied food aid is not a problem for most, for the widest, largest number of European donors. They are ready to do that. They have started it. They want to go beyond. It's a big coherence issue in terms of policies. We all know that food aid may be a little bit counter-productive in terms of supporting local capacities to produce also. Yes, maybe food aid should be devoted only to some special circumstances. I understand that for the United States it's very difficult. Mostly some of it may be because food aid is linked very intimately in these countries to other processes, which have nothing to do with financial development in a sense. This country may also be confronted with difficulties to untie other compartments of ODA. That doesn't mean that we shouldn't go on moving in the direction of untying, since maybe what we are devising in this restraint through recommendations which are cumbersome, difficult things. Maybe in the whole evolution of aid allocation we'll be so in the future that less and less room will be opened to untying. Maybe that's something we have to discuss in terms of instruments towards program support, sector support, towards budget support, towards these new approaches which are difficult also for some countries. Especially maybe these countries are confronted to move forward in that direction - for good reasons. That may be solved or should be looked at on their own merits. The more we move into that the less the untying issue would be a difficult one. You know that many countries that have adopted the recommendation are now thinking that was one step and that maybe we have to go beyond that. The European Union, for instance, right now is thinking on this. Rethinking these issues to move forward beyond the recommendation. To offer some food for thought and common reflection to the rest of the DAC membership. So I still think that it's currently a very essential objective. At the same time we are moving on. Maybe we will go beyond the current recommendation in terms which should be acceptable to everyone.

James Hradsky: Just a very, very small addition to this. The interest in performance results is causing many people to look at the issue of untying because it is a specialized issue for development cooperation. Untying otherwise is a concept that's accepted by most nations around the world. There is a considerable amount of interest that's being

generated. The MCA is generating a lot of interest on that as well right now. I just wanted to mention that whenever this question is raised with private sector groups they approve of the concept of untying. Particularly in the United States because they think that they're as competitive as anybody else and they would really love to get financing from the Germans, from the Brits, and the rest of it. One other addition of information is that the NGO movement, particularly a group called Action Aid, is undertaking a special study of untying in the United States primarily because of the MCA. I understand they're supposed to come out with some results in December or January. So it's a current topic here in the United States as well.

Bob Berg: Thank you very much. I'm associated with the Economic Commission for Africa. I guess I could say that I founded the DAC work on evaluation. Just a quick comment on the question. The comment arises from Patrick's emphasis on growth. The question is whether the DAC Peer Review process is correctly constituted to relook at the policies of a donor country on growth. Or whether or not other elements of OECD ought to be involved to look at donor countries' policies of treasuries and central banks from the optic of their effect on developing countries. Whether the U.S. review should have been much more holistic in looking at treasury and our Federal Reserve Bank as well as the IAD. The IAD may be the tail on that dog in term of global growth policies. The question is this. Steve, in your analysis of the MCA you identified four countries in Africa that you thought might be logical recipients given the ground rules, as you understood them. They're generally quite small economies: Gambia, Malawi, Ghana, and Senegal. This comes after some discussion of the G-8 in Canada whether 50 percent of the MCA should go to Africa. The issue is really is whether a Peer Review indicated a correct emphasis, geographically, in our response to Africa. Whether or not if that kind of listing is true, we should expect in the core aid funding a great allocation to Africa to prepare these countries significantly for greater participation in MCA.

Patrick Cronin: I'm still thinking about Bob's first point because I'm heading to Paris next week for the senior level meeting. I will be there with Clay Lauery from Treasury. He and I worked very closed on the Millennium Challenge Account. We will be talking about, among other things, potential reform of The DAC. So I take seriously your suggestion and I think it was a suggestion more than a comment that maybe the DAC can move further toward more inclusive approach to thinking about economic growth. It's a very good point.

If the MCA has four countries from Africa, according to Steve Radelet, that's the first year. The second year the broader pool of countries change. The distinction between the first and second year is essentially the IDA-eligible countries versus all countries that are of that same low level of economic growth whether they're eligible for IDA funds or not. Then the more controversial issue, if you will, is in the third year whether to phase in the lower-middle income countries which, even when you run the numbers (and you run them the way the White House put out the talk to the press this past week), those countries would be competing with each other. It's a relatively small group of countries. Even in that third year the bulk of the money from Millennium Challenge Account goes to the very poorest countries. But those that are committed to sound policies of governance, economic opportunity, and investing people in Africa continue to do very well in all of the scenarios we have run in the interagency process,

even though those numbers and the statistics keep changing. Even though we have to add in the President's strong desire to ensure that there's a commitment to anti-corruption policies, first and foremost to ensure that you have the soundest environment in which to invest Millennium Challenge Account monies as opposed to your other development assistance monies which can help reduce some of those problems and things that are impeding growth. There's not a percentage set aside. I know that there has been some discussion in the community in previous months that there's a set percentage. That is not the proposal that has come out of the Bush Administration. Now there will be discussions, continuing discussions, with Capital Hill and with many partners on the outside, non-governmental organizations, and the private sector and others. I'm sure there will be a good deal of discussion about what is the right way to put on it. I think, speaking informally here for at least part of the group that has been working on the Millennium Challenge Account concept, there's been a strong resistance within the interagency with a set percentage. That's not the way to do it. It's rather to start with the basic principles, the basic sound precepts of development. What's going to work? Focus on the poorest countries to be sure. Keep them in the center of the bull's eye. But don't set a set percentage. Meanwhile, whoever falls outside the Millennium Challenge Account, ensure that you're using your other development assistance monies effectively to help those countries hopefully, to become recipients of Millennium Challenge Account money.

Jean-Claude Faure: Just two brief comments on this last point. You asked which other point that had been discussed at the time of the Review. Basically, what we have been discussing was based on turning around two key issues for us. The first one was the relationship between the size of the amounts which would be available, and the criteria. The second was the consistency between the criteria which would be chosen and the current stance of the international financial committee on this. On the first points, one of the concepts, which can be easily expressed, is clearly linked to absorptive capacity. Five billion U.S. dollars is a lot of money linked to the number of countries you are going to give it, which if they are best performers will probably also be seen as best performers by the other donors, which would also be involved in this. How you link this. This is one of the issues which we were discussing. On the second element. We had touched a lot of interest to the relationship between the criteria and the choice of criteria, in view of being transparent, as Patrick said. Let me just give you an example to explain why we had this kind of comment. There is another important U.S. policy which is a decision which is called the AICHA (?), in favor of Africa. When you look at the criteria for being eligible to AICHA, it is not necessarily eligible to [an alternative program]. This is why we stress so much this idea that there are a lot of discussions in different forum, on criteria, and it's clear that the U.S. has to make a choice; but if it can be consistent with what is discussed elsewhere it would be of greater impact for the U.S. initiative and secondly of great benefit for the recipient countries.

Jim Michel: I'm a consultant in International Development Cooperation. There's two things going on simultaneously in the practice of The DAC. One is, of course, the tradition of the Peer Review, which looks at the individual donors against some fairly standard questions and issues. You look at volume. You look at orientations. You look at policy coherence. You look at management for each individual donor.

You're also working on the issues of harmonization and trying to make partnership work in a way that does not cause the recipient countries to have to learn to be expert in 20 different systems, but rather facilitates the strengthening of institutions of governance and an economy that is participatory and creates opportunities for people. I wonder how these two processes are interacting. If there are trends in which y, I think that the task force we have had in The DAC for two years now and is going to give its report to the next senior level meeting in a week from now, ten days from now, has been very much relying when discussing all these best practices, approaches on the experience from Peer Reviews or rather, most other times, from local results of field missions when Peer Reviews were taking place. We innovated a little bit on that. Last year we had a joint meeting on Mozambique and our ways of handling cooperation and development in Mozambique. Three donors who was going to ... Peer Reviewed add activities there so the three field missions were rather joint debriefing on the results and findings on these three field missions. That's a mean one to multiply in these ... We will do that again. That's a practical linkage between the two exercises. We are, of course. The task force has invited developing partners in panels. We had original discussions on all these aspects. So I guess this is very much linked. Then, that's an opportunity to go back a little bit on coherence and growth, etc. Growth, and to say that growth is a core element, promotion of growth, is a core element of policy reduction strategies, along side with others. It has two meanings, of course. It means how do we foster growth in our partner countries? How do we support their policies to promote growth? That has to do with coherence between their policies, that's one, and between our way to support these policies, and our way to involve the private sector in the process of the local level. Be it promotion of companies, SMEs, etc. Be it the new approach to, I suppose, to foreign direct investment. All these PPPs approaches now that are very fashionable these days. Public private partnership after ... more again join ... What does that mean if we want to scale..., if we want to have really that as a core element of financing development in these countries. It is linked to growth. Then it means that we have to work on that coherence issue with the private sector itself. It means sustainability there or something. It means accountability something else. How do we build frameworks for that? I mean we, together, partners build ... So that's one side of the coin for pro-po world. The other side is, of course, our capacity in our countries to generate growth at the local level and to be active agents of sustained growth at the local level. That has to do with our own policies. It has much to do with our current policies. We discussed that - subsidies, etc. I would just make two points there. The first one is that this is, as Patrick discussed, the reform that we may envision The DAC to serve better that. I doubt a little bit that it is reforming The DAC. It has to do with OECD I would say. The DAC, yes, we can move forward but that has to with pro-po growth in our country, in our part of the countries. But this second level of the problem is very much an OECD issue. What I find here is that we are not that active, our governments. We don't go very far. We say it's important but then it's a little bit wait-and-see. What The DAC can do is to be an active agent of promotion or that within the OECD, and yes, the reform may be that The DAC has more of a say within the OECD when it comes to money. Then also that may parallel in promoting some instruments. After all it's not to discuss subsidies versus ODA, and to say, there isn't coherence there. We should go beyond where we are in terms of analyses. What

does that mean? What does subsidies mean? Coming from the states or coming from Europe? I don't know. When it comes to cotton production in Mali? Where are the analyses? What does it mean to market-access impact on these countries for that product at that moment? A lot of analyses is still missing in that. Then, of course, we don't have tools for comparison. I mentioned several times the idea that yes, we should move into some kind of composite index there - maybe developing country by developing country. Or developed country by developed country. Mixing together the levels of subsidies, ODA, tariffs, etc. Churning that a little bit. There is a conceptual and a methodical issue behind that. That could be a way to compare our respective positions as donors. A lot of the work has to be done on that front. I know that the house here that hosts us today and Nancy is actively working on that kind of index approach. I think that's something we have to do more. For me, it is very much an OECD issue. We don't know very well how to handle that work now. Of course The DAC has a role to play. I would say that it's a matter of political will at this juncture within the OECD.

Steve Radelet: Thank you. As Jean-Paul alluded we are at the Center working a project to look at various dimensions of the ways that the OECD countries affect economic and social development in low-income countries. We are trying. It is very hard to come up with an index that looks not only at foreign aid levels but also at trade policies, at agricultural subsidies, at FDI rules, and at migration policies. We're even trying to do military and security. It will be an index that lots of people will throw tomatoes and eggs at because there are lots of problems. But we want to throw something out to, at least, get the discussion going.

Collin Bradford: Thank you very much. Collin Bradford from American University. First of all I'm very glad to see so many people here. Actually, it's not always that OECD, DAC Peer Reviews excites such interest as many of us will attest to. It looks good. Patrick, I have a question that I'd like to ask you that has puzzled me for a while. It's referred to here in the Recommendations and Findings. On Page 2 it says, under a Stronger International Partnership. "However other statements by the U.S. make limited reference to the current partnership for development such as the Monterey Consensus or internationally agreed upon development goals." It's been my observation over the last year and a half or so that there is considerable ambivalence in the Administration about what are now the Millennium Development Goals which unite for the first time the whole international cooperation system behind this set of eight goals. I just wondered if you could enlighten us? Is this ambivalence correct? I know, for example, the strategic plan in AID, as I understand it now has them embedded in it, which is a good sign. Is there ambivalence on this? If so, is it useful to know why?

Patrick Cronin: There is less ambivalence than there used to be. The President is committed to the international goals and the Millennium Declaration. That's what he did at Monterey. We've moved forward. We're now measuring our contributions to the Millennium Development Goals. That's one of the parts that we're setting up in our Performance Center, where we're going to measure performance. We are committed to these goals. I think the reason there may be mixed signals on this is simply because we don't think, again, that they go far enough. They simply are illustrative of the challenge, more than telling you how to get to the solution of development. That's what we want to focus on, if we're going to turbo-charge development assistance. If we're going to make

it part of our national security strategies, as the President has with Dr. Rice's foreign document that she produced for the President. Chapter 7 talks about expanding the circle of development. If we're going to add \$5 billion to our existing \$11 billion of official development assistance we have to have the strategy to do that. It has to go beyond those goals however laudable they are, however acutely they underscore the challenges in the developing world. While we contribute to those laudable goals we have to figure out how to promote economic growth and bring the business sector, and the private sector development, as one of the means for promoting economic growth to the developing world. To do that we have to invest in environments where there is political will and good governance. The Millennium Challenge Account will help focus on that and help remind us all how to be as effective as possible in our development assistance work with U.S. development dollars. Even while we don't neglect failed states and institutions, and other people just in dire humanitarian straits that deserve humanitarian assistance. Then doing that more in tandem with the international community. If it's ambivalence it can be partly explained that that was the 90s discussion and we're moving beyond it. It's always part of the phenomenon of, "You've got to put a new tag on something." But there's also a genuine aspect here of trying to be more strategic still about how to both attract more resources for development. Not just official development sources. Again, mobilizing the total resource flows that we need to bring into this picture for development to be sustainable. But also how to make sure that we're looking at what can make development sustainable. Which is not the achievement of those goals per se. It's the economic growth that must, we believe here in the U.S. at least, be the engine of sustainable development.

Larry Pierson: I'd like to bring it back to the question of coordination for a moment, if I can. Recognizing that it's not obviously just the U.S. that needs to... coordination but all donor nations. Get the panel's thoughts on using the PRSP as a vehicle to improve coordination. I know Steve and I have actually had this discussion. I know that there are obviously many flaws with the PRSP. The NGO community and CRS have done some evaluations and have many recommendations on how to improve it. Certainly now it's an IMF, World Bank instrument. In its concept the idea of countries coming together to set their own priorities and develop their strategies in consultation with their citizenry is one that deserves some attention. It could certainly development effectiveness if all donor nations could come together around those documents and move them forward in a coordinated manner. I'd like to get your thoughts on how to do that.

Steve Radelet: Thanks. Just a real brief response on my part to that. I think there's a clear link between wanting development goals, the PRSPs, and more detail strategies particularly within the Millennium Challenge Account. It seems to me that one way to think about this would be: you've got the Millennium Development Goals; at the top is sort of a long-range goals out there; the PRSPs as economy-wide document. Not in great detail but as part of the blueprint of how to get to those MDGs. I don't think the PRSPs are specific enough as a blueprint for interventions in health, or education, or anything else. You need one more level of detail where MCA-type proposals could come in to give specific strategies in health and education. I don't know. That's just one idea of how you could link these three things. Anyone on the panel like to?

Pernilla Josefsson: I couldn't agree with you more. Sweden's already doing

that. We are aligning our country strategies to the PRSPs. It's now becoming an internal way of our strategies as we do see it. Then we're making a separate strategy. Sweden's doing that alone with a number of donors. We do think this is an instrument that could be used. It's in its infant stage still. There's some problems. But definitely, I think it's something we need to work more on. I think the way to go forward is definitely, bilateral donors aligning themselves under the PRSPs. I think this also links back to the instrument discussion, because along with that, of course, goes harmonization of donor procedures. I would just like to add what Jean-Claude before said. I think there is an evolving discussion on procedures in the Peer Reviews. I think during the last five Reviews, we've had extensive budget support. I think it's always there. We're moving along on this issue. I think the work in the Task Force on donor harmonization, or harmonization donor procedures, goes a long way.

Jean-Claude Faure: Yes. I would agree very much, of course, with your scheme. We have objectives. Let's call them the MDGs. By the way, they are not that new. The seven MDGs were there before. They were contained in The DAC strategy of 1996. That was not new. These were the main objectives emanating from the big UN conferences of the 90s. What is new, in a sense, is just that we added some objectives especially in Johannesburg about sanitation, for instance. Monterey has added one big thing, which is objective aid which has nothing to do with results in the field but which has to do with the donor community response. This has become a Millennium goal itself. What is the response? How does it shape? What does it take? From that point, yes there is novelty then. In a sense it means that they are good bases for partnership. We have objectives there. We have preferred frameworks to move on the poverty front. That has a name. It is called PRSPs. Maybe it has to do also with other strategies of that kind. For instance, national sustainable development strategies are also strategies which have many things in common with PRSPs. These are not World Bank owned schemes. Or donors' own schemes. PRSPs should be, and are more and more, the country, the partner country way to present, to organize a strategy within some timeframe and diversity. Then we are certainly in the position to better support that kind of strategy. It means that the World Bank and others will act and provide some financing. Yes, it's true strategy. But that's very much something which is another responsibility of the country these days. Providing the coordination is very much the responsibility of the country itself. That means a lot in terms of capacity building again. One essential response is to find in the PRSPs a built-in section of the PRSP which has to do with medium term frameworks for capacity enhancement in these countries. It's multidimensional. It needs some support from the donor community. It needs strong new policies from themselves in terms of reverse brain drain, whatever. That's part and parcel of the scheme. I would say coordination. We now have ways to make it a built in element. It's not something which would be better coming from the outside. Provided these countries take their leadership on that and now are able to assume responsibility.

Jim Hradsky: Just one small factual point since I spent most of my life in the field. The PRSPs are sort of the theoretical document because there's a lot more underneath them, usually. In most country context there are strategic plans, sub-strategic plans for each sector, so forth. Indeed this cascading effect that you have of strategies from the top down to bottom just needs a little bit more coordination, coherence, and

guidance. In theory you have a structure that goes from very high to quite low in the planning.

Ann Phillips: I'm actually with USAID. I have a question, to our European panelist in particular, about what you perceive to be the impact of MCA once the countries are selected and there is a large infusion of U.S. aid money into those countries. Do you expect that your countries would, if they're working in those particular countries, would maintain your assistance? Would drive down assistance? Would increase assistance? How would that coordination work? Second, if there's any empirical evidence on how this has worked in the past, when a major donor, like the U.S., has selected a specific country, or set of countries to focus on?

Steve Radelet: Good question, and I will give a partial answer, starting with the second one. I have a paper that will be out in the next day or two, actually. Some of my colleagues look, most are looking at the absorptive capacity issue that Ambroise raised earlier. It also talks about this issue a little bit. When we look at the empirical evidence over the last 20 years of when the U.S. has significantly increased its bilateral assistance to countries, how other countries have reacted to that, the answer is that it's very unclear. In post-conflict situations they tend to go together, and not surprisingly. There's an event in a recipient country and U.S. foreign assistance goes up. And so do other countries go up. Post-war Mozambique, and other countries, are perfect examples there. Of course, after the Soviet Union broke apart is another good example. Outside of conflict situations, it's quite mixed. There are situations where it went up, and others where it went down. I think it's a good question not only for the bilateral donors but also for the World Bank. My own guess is that a few years down the road you will see some movement, some crowding out if you will, that the other donors would cut back some of their assistance and shift it to other countries as a result of the MCA. That's just speculation, obviously. Anyone on the panel want to try that?

Ambroise Fayolle: Very briefly, because it's much too early to give you an answer on this. The reason why we, both Sweden and France, stressed so much this issue of coordination during the Peer Review, and why almost all The DAC members who have spoken during the meeting in Paris, have also raised this issue, is exactly because we have this kind of consequences in mind, in terms of which kind of consequences on all developing policy it's going to have. I don't have any precise answer to your question. I think that most important is probably we still continue to discuss through the PRSP also any kind of process. Which kind of priorities are key to every country. Are they eligible to the MCA? We do that in a way which is not detrimental to the country itself. Just take Senegal, for example. I doubt very much that France will drop its aid to Senegal because Senegal might be eligible to MCA.

Steve Radelet: More interesting might be if Senegal continues its program and the United States significantly increase it, how the World Bank and the African development (corporation?) might react. I think that to the extent they stick with their financing gap approach that would suggest that they would reduce assistance to those countries.

Peter Thornman: I'm a development consultant, formerly USAID. This question is directed to Patrick Cronin. Patrick started out his comments on the note that

aid is severely limited in what it can do in an area of economic growth because of earmarking. It's also limited because its internal structures are sort of directed towards dealing with the earmarks through strategic objectives and the framework that sets up HIV/AIDS, and women in development and so on, as areas where we do things - where we did not. Also its staffing is directed at sort of ancestral bases. It doesn't really have the capacity to think strategically at a country-level. That's my assessment, at least when I left the agency year or two ago. I think this is an interesting time now because it provides an opportunity to do something about aid. Also to use the MCA vehicle to address some of these deficiencies, which a number of the panelists have mentioned, including Patrick. The thought would be that AID ought to start thinking strategically at a sectoral level. That's where its money is. What are we going to do about HIV/AIDS globally? What are we going to do about the environment globally? Drop the pretense. I think it's really pretense that we can think, AID can think strategically at a country level. Use the opportunity of MCA in the countries in which it's working to address some of the concerns that were raised about coherence. To take over the job of really doing country development strategies, the way AID used to do it 20-30 years ago (which really dates me). I think this would be an opportunity for MCA to take the lead in those countries in which it works -- it sounds like that will be an expanding pool of countries -- to bring together the different U.S. government agencies. Somebody mentioned 50 that are now delivering assistance. It would be a heck of a job having participated in some of these kinds of events where you have various agencies involved in trying to pull something together. I think a pluralist approach led by MCA -- MCA fueling this. Maybe you move up to NSC, but that's fairly thinly staffed. Anyway, that's two ideas. They are one, let's accept reality and have AID start moving away from a country focus. The other is that MCA really takes the lead in thinking about development at the country level. Thank you.

Steve Radelet: There's a bigger issue here, I think, strategically for AID. In some ways the MCA approaches the country approach and embraces the idea that in different recipient countries you need different strategies. Some, with better governance, you might embrace programmatic funding and give the country much more flexibility; down to other countries that are post-conflict, where we don't trust the government at all, and we need a very different mechanism for delivery. On the one hand there are ideas out there of different delivery mechanisms by country. Then you're raising the idea, what about global problems, HIV/AIDS, and environment and how you think about those. I think the intersection of those two approaches is a critical strategic issue for AID.

Patrick Cronin: We could have a long conversation about these comments. They're certainly very insightful. We don't want to go into the history of AID, and why the old days were more golden than the current period for AID. AID, the Agency for International Development continues to be the largest repository of expertise on the ground in the developing world, bar none, for the U.S. Government. They are an invaluable resource. Whether or not they can think strategically in every single country in tandem with our other foreign affairs professionals, especially the State Department and the Embassies on the ground, but many other departments and agencies that have people there -- we'll leave that. It's probably country-by-country basis. I think that we

may be giving you the wrong impression if we have not informed you of our sectoral strategies. When Andrew Natsios became the Administrator he reorganized the Agency for International Development, which is never a painless thing to do in the bureaucracy. It's taken awhile. We have three large, so-called, pillar bureaus. Those pillar bureaus both inform the public what we do, and they also take technical responsibility, both within the agency and helping to drive, within the interagency and internationally, sectoral strategies. Global Health Bureau, under Ann Petersen-Lucent, is very much on the lead of driving a HIV/AIDS strategy. I think it has been very effective, whether it's in context of the Global Fund or other international forums. We've produced strategy papers on that and have a current strategy in the works as well. Amy Siemens responsible for Economic Growth, Agricultural and Trade, driving an agricultural strategy, a trade capacity building strategy. We've got a trade paper that's on the cusp of being produced here next month. Also, education and environment. In our democracy conflict humanitarian assistance, we have strategies coming forth on governance, also on humanitarian assistance. Sectorally, yes we are definitely trying to continue to influence how the U.S. and its partners try to implement effective sectorally-based strategies. We have to marry them up. It's not an either/or question. You still have to come down to the ground. When you come down to the ground you come down to individual countries and communities within those countries. You have to rely on the regional expertise: the people who speak the languages; who live with the people; who are talking to people; who have to have ownership of these sectorally-based strategies otherwise there is very little hope that they will be sustained and can prevail. We have to do both. We have to do it effectively. We're doing it from behind because AID's resources, in terms of human resources, have been depleted. We've got 50 percent retirement of our foreign service here in the next three years alone. There's a major recruiting drive for that. The bottom line is I agree with the comment that the Millennium Challenge Account can indeed become the vehicle for thinking strategically. Both sectorally as well as with respect to specific countries that seem to be committed to sound policies, where there's a great likelihood that we can see sustainable development.

Vivian Lowry-Derrick: I'm at the Academic for Educational Development. Within our field of sustainable development sometimes there are issues that are so huge that they really do dwarf the usual considerations of coherence and effectiveness on levels of resources and coordinations. One of those issues is HIV/AIDS, which Patrick just mentioned. I won't cite all the statistics because they are documented and everybody here knows them. I have two questions. One is: is it possible to institute a Peer Review mechanism, or does one already exist? A component that can assess the relative effectiveness of one donor's approach to one of these large issues like this as opposed to another? In the case of HIV/AIDS, for instance, the whole discussion about emphasis on prevention or on treatment. That's one question. Is there such a component or mechanism? The second question is about Africa and about NIPAD which has been mentioned several times here. One of the core principles of NIPAD is this Peer Review mechanism. I'm wondering is The DAC Peer Review mechanism in any way applicable to Africa for modeling? Or are the institutions in Africa too weak? As the emphasis in the Africa Peer Review process is more on political areas rather than on the social and economic areas of sustainable development.

James Hradsky: First of all, using a

Peer Review mechanism to compare donors' effectiveness, one to the other, is something that people talk about an awful lot. Donors don't particularly like to be compared, one to the other. Jean-Claude already commented on that. They are sort of implicitly compared but my suspicion is that in the long term the Peer Review process is more valuable as a discreet peer pressure process than it is something that is so brutal as to have a report card with rankings how one does to another. We do rank countries on the basis of their ODA volume, and the percentage of their ODA, and the relationship to GNP. But my suspicion is probably you're not going to go a whole lot further than that being explicit. I would defer to Jean-Claude's opinion on that. The second one on NIPAD. Yes, in fact the Secretariat, the ECA Secretariat was with us last year on several occasions to talk to us about how the Peer Review process could be used in their own process. In fact, that's pretty much what they're doing. There is a Peer Review process they're putting in place. It's focused differently than ours is. It's not the same mechanism, or instrument that you see here. Indeed, they have drawn a lot of inspiration from The DAC Peer Review process in setting it up.

Jean-Claude Faure: On the Peer Review approach as a tool to see emerging best practices from our member countries when it comes to HIV/AIDS, or any other question with high priority, I would share very much with what has been said by Jim. Coherence is also an issue for joint consideration between the multis and our agencies, and the countries involved. It's very much the case when it comes to these high priorities, like HIV/AIDS, or education for all, or where you have global approaches, with much money put in big baskets by our member countries. Yes, we certainly lack the kind of linkage between these approaches and country approaches. After all, when you discuss PRSP and when the country presents us with a medium term plan for education, or for health, we are going to participate in the financing of that. But at the same time, of course, that would try to be to shape the country answer to these big problems which are also having to go through public global funds. Where is the linkage there? How do we operate that? That's for me, maybe I'm over reacting to that. I guess this is one of the big issues for tomorrow. We have to discuss that much further within the international community with the multis to avoid duplication, to ensure synergies, and putting together. As far as the NIPAD is concerned, I don't think the issue of Peer Reviews within the NIPAD at this juncture is a technical issue, or a capacity issue. I think, yes, African institutions are strong and able to deliver on that. But they may have some fights between themselves, to know who is going to lead the process, or to be the active agent. I see that these possibilities are there. I rather think that the issue right now in Africa, vis-à-vis the NIPAD approach to Peer Review is very much a political nature. Because it's very ambitious. It's much more ambitious than our own Peer Review in a sense. We are not Peer Reviewing our political principles, our political governance, our political approaches to things, and issues, and solutions. They want to do that. It may be they have to do that because they have reached a point where governance is essential in these terms. They have to look into that, and to Peer Review that. It's very ambitious. Would our countries accept the idea that Peer Reviews for our side would go into discussing that together? I may understand very well that it's a delicate political process. It's much more than the technical issue at this point, I guess. Maybe, yes, they need to better understand, to better shape the framework they want to apply there. On that ... we have

quite a lot of cross-fertilizing conversations with the Africans. The Directorate has been very active in exchanging, in informing, in discussing with the Africans the mechanisms for Peer Reviews. On that front certainly we may help shape the process. But, once more, maybe yes it is an equal issue of capacities. But frankly it is very much an issue of politics. We have to support that political will. Still, it is still in the making. Still in the shaping.

James Hradsky: There's just one comment I'd like to make in closing. We saw, of course, the whole A to Z development assistance issues in the U.S. Government. Obviously there are some that floated to the surface as being primary issues. There is just a lot to be gained from the collaborative experience for the United States. I think I would like to emphasize the importance of trying to reach out to the other countries, other donor partners, trying to learn as best they can what's going on elsewhere. Picking up on those messages. Then helping to lead from that base of knowledge. Trying to help lead the international community forward. The United States, and perhaps the European Community and a couple of other medium-sized donors, are really the leadership of development cooperation in the world. Over the last decade the United States unfortunately seems to have forgotten some of that. This is perhaps a very appropriate time for the U.S. to re-exercise that leadership. One little last comment I'd like to make. We never really got into the discussion of results-based management issues. I know that it's a bit of an operational issue but something that is very important. I'd like to emphasize the fact that the USAID, and other agencies within the U.S. government, have already tried doing things something like the MCA. These mechanisms are used, for example ATRIP is an organization that comes to mind. African Trade and Investment Program I believe it was called. It has now, if I'm not mistaken, come to a close. It's being evaluated right now. There is some very good information - some very good lessons learned - that are coming out of these kinds of exercises. I would think that the U.S. Government, particularly the USAID, would try to skim off the top when they go into discussions. Like the one on partnership performed next week.

Patrick Cronin: A strategy. The challenge of implementation under the Peer Review. The United States Government now has commitment in the National Security Strategy to jump-starting and reinvigorating our leadership role in development, as Jim has suggested we do. The Millennium Challenge Account and Corporation give us the opportunity to really make things happen. Both here and internationally on this front. The second point is that the proof will be in the pudding. The implementation is indeed the toughest part of any policy. We have a long way to go if we are to take The DAC Review insights, as we implement the Millennium Challenge Account, reform AID, and improve our foreign assistance generally. I think we'll be in good stead in that regard. I just want again thank the Swedish/French delegations, Pernilla and Ambroise, The DAC, the Chair, Jean-Claude, the Secretariat Michael Roscoe couldn't be here, Jim Hradsky from the Peer Review and Monitoring Division, and those of you Steve, Nancy, and IRIS, those that have put on this today for us, very helpful.

Jean-Claude Faure: This, I take it, is one of the biggest challenges. How do we get that idea and image across so that our constituency will be more supportive of what we're engaged in? That's one big concern, I guess. If we want to deliver, in our efforts, in an efficient and consistent manner this has to be very much one of the core elements

for that agenda for tomorrow. How do we show that? Through practical actions, of course. Through practical approaches, through reality. Then, I guess, that we have something to explore further on the fringes, so to speak, of what we are saying. The issue of poor performers has not been coming to the fore this morning very vividly. But it's very much in our minds, I guess. Selectivity is a necessity. At the same time we know that if we want to tame the MDGs, in a sense, we will have to be able to work with partners, which are not currently good partners, but we will have to devise policies and support to their policies, or else we will not meet the targets. Because, after all, if we just concentrate on the ten or twelve good performers that will not help half the number of poor people in natural poverty in 2015. It will not go far enough. We all know that. We have all that in our mind, one way or another. What can we do on that front? Secondly, we are moving much precisely and concretely than before on that front. With the multis the World Bank is discussing this issue when they discuss the LICUS countries. Which is kind of like a sickness. LICUS, not a nice word.

Steve Radelet: Low income countries under stress.

Jean-Claude Faure: And we're discussing that in The DAC when we discuss difficult partnerships. We prefer to call that difficult partnerships. Okay. That's maybe on the fringe. It's becoming closer into sort of the center, I guess. We need some to shape some responses. There is a second fringe issue in a sense we don't want to tackle up front. It's the issue of complementary between donors. Yes, selectivity means that we concentrate this way or that way. Yes, we all want to move on the same sectors, in the same directions. That should leave more space, more room for complementary among donors. Maybe it will fail if we don't explore that more. Yes, it's nice that we spend, all of us spend our money on 12 countries. But we run the risk of redundancy where a country is totally unable, in the end, to spend that money usefully without redundancy. I think that's also a fringe issue right now. It will move to the center, I guess. So this is it. We should not forget that these two concerns are building a little bit. We will not be efficient. We will solve the issues. We are able to address, up front, these issues of poor performance and how to deal with that, and the issues of complementary between donors.

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